

How did a small-time publisher gain control of the *San Francisco Examiner*, the most storied paper in the West? A roiling, high-stakes tale featuring an ambitious immigrant family, backroom deals, dramatic courtroom revelations—and one of the strangest sales in newspaper history. **By John Cook**

S.F. CONFIDENTIAL



Future Examiner publisher Ted Fang



The Chronicle and Examiner joint offices



San Francisco mayor Willie Brown

One night in 1988, Ted Fang, the editor and publisher of *The Independent*, a tiny, free San Francisco newspaper, was working late, listening to a local radio talk show. The host was interviewing the owner of Fang's main competitor, another small giveaway filled with advertisements. According to Fang, the competitor, who happened to be from Chicago, began attacking his rival paper, singling out "one woman who is playing a political game...Florence Fang."

Incensed, Ted called in to the radio show (using, he recalls, a fake name to get past the producers) and made it on the air. "I said, 'Hey, I'm the son of Florence Fang, and I don't appreciate the way you're talking about my mother,'" he says. "My family has always been in San Francisco and contributed to this community, and who are you? A carpetbagger from Chicago....I went on for about three minutes before they cut me off, but it felt good."

These days, no one would dare cut Ted Fang off. On Wednesday,

November 22, Fang will become the editor and publisher, as well as the owner, of The Hearst Corporation's *San Francisco Examiner*, one of the oldest, most storied newspapers in the West. It was the paper that launched William Randolph Hearst's empire in 1887, helped spark the Spanish-American War with its jingoistic calls to arms, published Mark Twain's and Hunter S. Thompson's dispatches, and, by way of Orson Welles, gave us *Citizen Kane*.

Many in San Francisco view with suspicion the circumstances by which Fang and his family came to own the *Examiner*, or, as Hearst dubbed his paper, the "Monarch of the Dailies." The family's purchase of the paper surely ranks as one of the strangest transactions in the history of the news business. The Hearst Corporation literally gave the paper to the Fangs, along with \$66 million, so that the Department of Justice would allow Hearst to buy the *San Francisco Chronicle*, the city's other, and more successful, daily. Many in San Francisco have accused the Fangs of leveraging their extensive political connections to wrangle

L: FANG, ERIC RISBERG/AP PHOTO; CHRONICLE: DAVID YEE/UPH; BROWN: ERIC RISBERG/AP PHOTO; R: RON BURDA/SAN JOSE MERCURY NEWS



TAL

A San Francisco Examiner staffer
inspects copies of the
paper announcing its sale to the
Fangs on March 17, 2000.

San Francisco Examiner
SOLD!
Fang family to acquire Examiner; Hearst to own Chronicle

the *Examiner* from Hearst. Joseph Alioto, the antitrust lawyer who eventually filed suit against Hearst to block the *Chronicle* purchase, called the deal a "sham and a farce" and a "down-and-dirty bribe." A federal judge ruled that the purchase was nothing short of "cronyism."

Even Fang's supporters acknowledge that the family drives a hard bargain. Frank Gallagher, a former *Independent* reporter who is an advocate for his old boss, flashes an impish grin and says: "Ted conned Hearst. Big time."

The story of that "con" is utterly bewildering. It is a convoluted tale of machine politics, backroom deals, decades-old political and personal rivalries, dramatic courtroom revelations, and a politically ambitious—some say rapacious—Chinese-American publishing dynasty that has consistently used its newspaper as a cudgel with which to attack its enemies and a platform from which to praise its allies. The saga would make for a riveting miniseries, and the cast of characters practically begs for a soap-opera treatment: Phil

the only print shops in the country with the capacity to print Chinese characters, and Ted remembers orders coming in from Chinese restaurants all over the country that needed menus printed.

At the same time, John Fang rose from reporter to publisher of *Young China Daily*, a fiercely anti-communist Chinese-language newspaper based in San Francisco and financially supported by the Taiwanese ruling political party. (Florence ran the day-to-day operations of the printing company.) John became a force in Chinese-American politics, eventually leaving *Young China Daily* in the late 1970s to found *AsianWeek*, a sedate, free English-language weekly that is now run by his son James. "[John Fang] was very much concerned with two destinies," local politician Michael Yaki told the *Chronicle* in March. "The destiny of his family and the destiny of Chinese Americans as a political force in this country." These concerns took the shape of one specific goal; as Ted explained in a speech to the California Newspaper Advertising Executives Association earlier this year, "It was my family's dream to buy the *Examiner*."

'I learned from my father what newspapers meant to the community,' says Ted Fang, who will soon become the editor of the *San Francisco Examiner*. 'What I learned on my own is that newspapers are a business.'

Bronstein, the swashbuckling executive editor of the *Examiner* and husband of actress Sharon Stone; Warren Hinckle, the legendarily hard-drinking, eyepatch-wearing rascal who writes a front-page column for *The Independent*; Jack Davis, the ruthless San Francisco political consultant who has described himself as "a warlord for the Fang family interests"; Willie Brown, the nattily dressed and notoriously slick mayor of San Francisco, who has transformed the city into his private political fiefdom; Timothy White, the naïve editor and publisher of the *Examiner*; and the would-be spoiler, Clinton Reilly, the failed mayoral candidate who threw the entire tawdry drama into open court for the world to see.

Then there is, of course, the Fang family: the father, John Fang, who died suddenly in 1992 at the age of 67 during routine surgery, but whose hardships and success as an immigrant to this country still cast a long shadow over his family's fortunes; Florence, the widowed matriarch, who runs the business and has worked to ensure her family a powerful position in San Francisco; and their sons, James, Ted, and Douglas.

John Fang was born in Shanghai in 1925, and when the Chinese communist purges began, he was sent out on his own by his family to carry on the name. To this day, Ted says in a telephone interview, he has never met any relatives from his father's side, and his father never spoke of their fate.

John Fang moved to Taiwan in 1949 and worked as a newspaper reporter before immigrating to the U.S. with Florence in 1960. He launched the publishing empire that would one day swallow William Randolph Hearst's pride and joy by buying a print shop and selling tourist "handy guides" to San Francisco's Chinatown. His printing company, called Grant Printing, would go on to enjoy success as one of

As a boy, Ted Fang used to help his father by sweeping the newsroom floor of *Young China Daily*, but he was a reluctant candidate to fulfill his father's dream. Having witnessed the long nights and low pay that his father endured, he never planned to go into the newspaper business and to this day regards his success as a publisher with humility. His parents didn't intend for him to enter the family business either—"My parents attempted to preordain the careers of all their children," says Ted, "and I was preordained to be a doctor." But when the pre-med courseload at University of California, Berkeley, which he attended but left four credits short of a degree, failed to hold his interest, he found that despite his parents' wishes as well as his own, he "had ink in [his] blood." Ted says: "I learned from my father what newspapers meant to the community. What I learned on my own is that newspapers are a business."

The Independent, the flagship of the Fang business, isn't much to look at. It's cheaply designed, the writing is poor, and the coverage, at least when it comes to politics, is often too blatantly slanted to be taken seriously. Published three times a week, *The Independent* announces itself as "San Francisco's Neighborhood Paper" and makes an effort to cover local issues and stories that Ted Fang feels the two major dailies ignore, "like mom-and-pop stores having their tenth anniversary," he says.

The result is a grab bag of dull stories that would seem more at home in a small-town weekly ("SF to Rely More on Recycled Water" gets the front page) juxtaposed with screaming, tabloid-style headlines about local politics ("Reilly Campaign Implodes"). And despite isolated





San Francisco mayor Willie Brown presents Florence Fang with a proclamation declaring September 8, 2000, 'Florence Fang Day.'

streaks of admirable journalism, such as a 1991 series on lead contamination in a local public housing project. *The Independent* is legendary in San Francisco for not being read. Warren Hinckle's front-page column is accompanied by a photograph of its author—he is recognizable to thousands of San Franciscans as the guy whose face they step on as they walk out of the house in the morning.

By some accounts, San Francisco's two daily newspapers, the *Chronicle* and the *Examiner*, aren't much better. The papers both tend to load their front pages with wire-service copy, neither has taken the lead on a major story of national significance in recent years, and they are smarting from the recent dominance of Knight Ridder's *San Jose Mercury News*—which is based 50 miles to the south and launched a San Francisco edition in July—in covering the high-tech economy.

Though both San Francisco dailies date from the late 1800s, only the more successful *Chronicle* (with a circulation of 465,000) has the reserve that one might expect of a century-old newspaper. It is workmanlike in delivering the news and was for 45 years the home of the

beloved late columnist Herb Caen. Its executive editor, Matt Wilson, keeps on his office wall a series of black-and-white photographs of the *Chronicle* newsroom from the 1920s, when it was built, through the 1980s, and the photos are distinguishable only by the length of the reporters' hair and shirt collars. Otherwise, the newsroom's spacious, efficient atmosphere appears to have remained consistent through the ages.

The *Examiner*, by contrast, is the obnoxious kid brother. Bombastic headlines scream from the front page, and left-wing screeds scream from the editorial pages in the rear. As an afternoon paper, the *Examiner* is the underdog to the stalwart *Chronicle*, with a circulation hovering around 100,000 and, consequently, a lower editorial budget. But it regularly and gleefully beats the *Chronicle* in city hall reporting; *Examiner* reporters Lance Williams and Chuck Finnie, for instance, have a virtual lock on covering a scandal in the city's minority-contracting program, and their coverage has in part prompted an FBI investigation. The *Examiner* newsroom, with its clut-

'Anyone who knows Willie Brown knows that he wouldn't have supported the sale [of the *Chronicle* to Hearst] unless the Fangs benefited,' says Phil Bronstein, the *Examiner's* executive editor.

tered cubicle décor and televisions sprouting from the ceilings—has the air of a start-up despite the paper's age.

Despite their differences, though, the *Chronicle* and the *Examiner* have more in common than one might expect. Both papers are housed in two jointly owned buildings connected by an aerial walkway at Mission and Fifth streets, in a rather sketchy area of San Francisco's downtown. Just around the corner is a city block full of flop motels and dive bars that are hopping by noon. Both were for years private, family-owned papers—the *Examiner* by The Hearst Corporation (William Randolph's grandson remains chairman of the board), which owns 11 other newspapers including the *Seattle Post-Intelligencer* and the *Houston Chronicle* and magazines such as *Cosmopolitan* and *Esquire*; and the *Chronicle* by The Chronicle Publishing Company, which is in turn privately owned by the descendants of Michael and Charles de Young, the brothers who founded the paper in 1865.

Moreover, though the two papers' newsrooms compete vigorously

for stories, the *Chronicle* and the *Examiner* can't quite be called competitors—from an economic perspective they are virtually the same newspaper and have been since 1965. That's when The Hearst Corporation and Chronicle Publishing entered into a Joint Operating Agreement (JOA), under which their two papers, both of which had been suffering losses by competing directly, merged all but their editorial operations into one unit, The San Francisco Newspaper Agency (SFNA). Under the JOA, Hearst and Chronicle Publishing shared their advertising sales, printing facilities, distribution network, and prepress production, splitting the profits down the middle. The JOA allowed Hearst's *Examiner* to piggyback on the *Chronicle's* success, taking half of every dollar in revenue even though the *Examiner* brings in far less money than the *Chronicle*. Under the tender mercies of the JOA, Hearst cleared \$20 million in 1999 from what is, by all accounts, a failing newspaper.

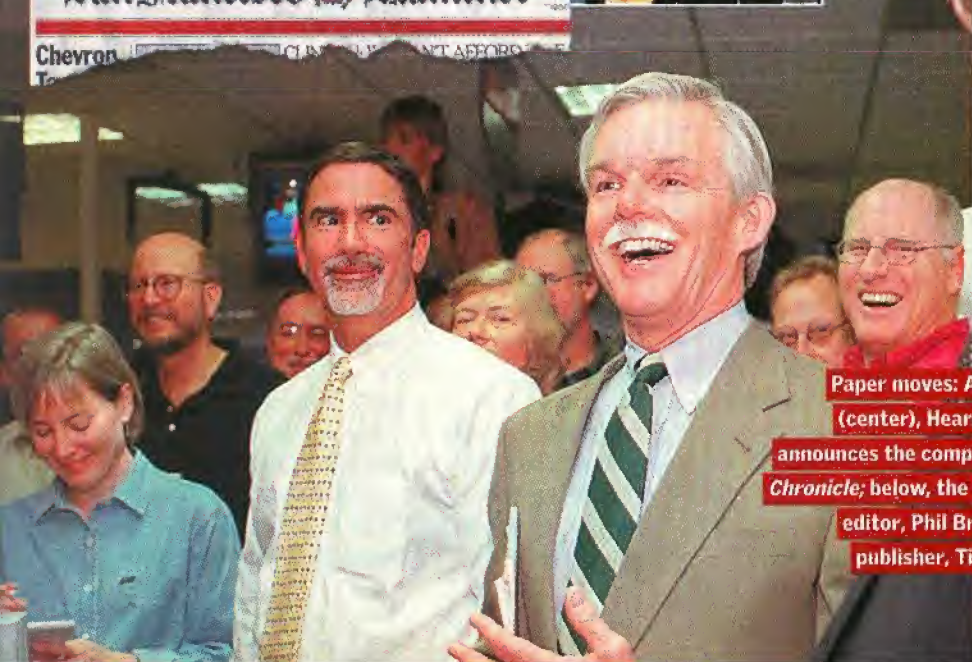
This arrangement in turn gave the papers another common characteristic: They have both over the years been the targets of ire and litigation from the Fang family. Ted Fang calls the two dailies a "joint operating monster," and in 1994 the Fangs' holding company, Pan Asia Venture Capital Corporation, sued Hearst and the SFNA for "predatory pricing," alleging that the JOA allowed both papers to pool their resources and make lowball bids on city advertising contracts. Pan Asia won at trial in 1996, but three years later, an appellate court sent the case back for retrial; the suit was still in litigation in 1999 and would become a crucial pressure point in Ted Fang's behind-the-scenes crusade to acquire the *Examiner*.

The battle for the *Examiner* began on August 6, 1999: The Hearst Corporation announced that it had purchased the *Chronicle* from the de Youngs for \$660 million and would attempt to sell the *Examiner* or shut the paper down if it could not unload it,

which was likely. The JOA was set to expire in 2005, at which point both the *Chronicle* and *Examiner* would have to disentangle all the assets they shared and compete head-to-head, a costly prospect for both papers. And Hearst knew that without the JOA, the *Examiner* was dead in the water.

The deal caused an uproar in a city that prides itself on its political activism, and Mayor Willie Brown pounced on Hearst for threatening to turn San Francisco into a one-newspaper town. Three years earlier, when rumors of a similar deal were circulating, Mayor Brown had written a letter to Attorney General Janet Reno requesting that the Justice Department examine whether such a purchase would cause "anti-competitive concerns for our local and neighborhood papers."

The business logic for Hearst was simple, however: The afternoon *Examiner* was a failing newspaper—its circulation has fallen 21 percent over the past decade—and Hearst had virtually no hope of turning that decline around. The morning *Chronicle*, on the other hand, was



Paper moves: Above, Frank Bannack (center), Hearst president and CEO, announces the company's purchase of the *Chronicle*; below, the *Examiner's* executive editor, Phil Bronstein (left), and its publisher, Timothy White (center)

thriving, and the de Youngs were eager to sell it. They put it up for sale in June 1999, and Hearst jumped at the opportunity to own its more successful competitor, offering \$660 million, at least \$150 million more than other potential buyers.

By acquiring the *Chronicle*, Hearst had secured a long-term newspaper presence—the only presence, perhaps—in San Francisco. And it wouldn't be the first time a paper bought out its competitor: Joint Operating Agreements have been a part of the newspaper landscape since the late 1930s. As a Hearst lawyer pointed out in a 1999 letter to the Department of Justice, 27 cities have seen their major dailies enter into such agreements. At the time of the sale, 15 of those JOAs had been terminated, under circumstances in which only one of the two papers survived. The Department of Justice moved to prevent only one of those transactions, a fact that probably led Hearst to believe that the DOJ wouldn't intervene in San Francisco.

So all that was left for Hearst was to clear the transaction with the Department of Justice's antitrust division, dispose of the *Examiner*, and merge its staff with the *Chronicle*. (In the purchase agreement, the de Youngs required Hearst to retain all *Chronicle* employees.) That's when Hearst walked, largely unaware, into a fight with San Francisco's political machine—and lost to the tune of \$66 million.

Anybody who knows Willie Brown knows he wouldn't support the sale [of the *Chronicle*] unless the Fangs benefited," says Phil Bronstein, the *Examiner's* executive editor. With his salt-and-pepper beard and square jaw, Bronstein is a handsome man—almost archetypically so, in the manner of his actress wife. He carries himself with the disarming confidence that he earned during his nearly 30-year career as a journalist, which includes a Pulitzer nomination for his dispatches from the Philippines during the toppling of Ferdinand Marcos's regime.

On this afternoon in September, Bronstein's office is a mess—stacks of newspapers erupt from the corners and other papers seem to cover every surface. Of course, no one could fault him for letting the place go a little. In about two months, on November 22, he and



Friends of the Fangs: Above, feared political consultant Jack Davis; left, *Independent* columnist Warren Hinckle; and inset, U.S. senator and former San Francisco mayor Dianne Feinstein

all of his employees will hand over the *Examiner* to Ted Fang and walk across the hall to the *Chronicle*, their new home. None of the 210 staffers at the *Examiner*—not even Bronstein—knows at the moment precisely what his job will be on that day. Hearst has promised employees at both papers a job at the new *Chronicle* but has been severely limited by the purchase agreement from coordinating the impending merger of the *Examiner* staff with the *Chronicle* staff or from discussing it with its own rank and file.

At the moment, Bronstein is talking not about his own uncertain future or that of his staff but about how the Fangs came to own the paper he has stewarded since 1991. "The political

system was wired for that outcome," he says. "There was an inevitability about it given the way San Francisco politics works."

Here is an example of how it works: In late July 1999, Timothy White, the *Examiner's* editor and publisher, and Hearst's loyal man on the ground in San Francisco, arranged a meeting with Willie Brown. White wanted to warn the mayor that in several days, Hearst would be announcing its purchase of the *Chronicle*. As he explained in an e-mail sent to his superiors in New York (which later became part of a court record), he "pitched [Brown] extensively for his support of our acquisition of the *Chronicle*, particularly urging his support of dropping a requirement (if any) to divest of the *Examiner*."

Willie Brown, who has been mayor of San Francisco since 1995, is a consummate political player and runs San Francisco with a charming, positively regal bearing. White is known in *Examiner* circles as a good boss who was a bit out of his depth in San Francisco's poisonous political environment. (He declined to be interviewed for this article.) As Bronstein puts it, "It took Tim a while to figure people out, and I'm not sure at the end of the day that he fully figured them out."

Had White figured Brown out, he would [CONTINUED ON PAGE 161]

person or an individual. Obviously when I finished the book and that time of my life was done, I had the strong desire to take on a new challenge, and learning to do this new job is a big one."

Stephanopoulos pauses. "And I still don't know where it will lead."

NOT LONG AFTER HE JOINED ABC, Stephanopoulos underwent something of a rite of passage. He took the shuttle from New York to Washington, along with Ted Koppel and Tom Bettag, then the executive producer of *Nightline*. In the cab on the way into D.C., Bettag surprised Stephanopoulos with a gift of a laminated card that had belonged to Fred Friendly, the legendary former president of CBS News. On the back of the card was a 1939 quotation from Ed Klauber of CBS News:

What news analysts are entitled to do and should do is to elucidate and

illuminate the news out of common knowledge or special knowledge possessed by them or made available to them by this organization through its sources. They should point out the facts on both sides, show contradictions with the known record, and so on. They should bear in mind that in a democracy it is important that people not only should know but should understand, and it is the analyst's function to help the listener to understand, to weigh, and to judge, but not to do the judging for him.

To this day, Stephanopoulos carries that card in his wallet—a talisman of sorts. "I'm looking at it right now," he says, talking by phone from a plane 35,000 feet up. He's on his way to Portland, Oregon, on assignment for *Good Morning America*. "One of its edges is frayed." ■

With additional research by Anna Schneider-Mayerson

S.F. Confidential

[CONTINUED FROM PAGE 101] have recognized the beginnings of trouble at that meeting. Brown is a stalwart supporter of the Fangs (earlier this year, he declared September 8 "Florence Fang Day" in San Francisco) and made that fact quite clear to the *Examiner's* publisher. According to White's e-mail, "Willie...reflected that it was really not smart for us to have something like [the Fangs'] predatory pricing case 'hanging around' when we're trying to get something big done like an acquisition or merger....[Brown] observed that funny, undesired consequences often ripple from something like this.

"Implicit in all of this," White continued in his e-mail, "was the message that support of our efforts in the acquisition would be influenced by our ability to come to some terms in the Pan-Asia case. Whether that means support from the Fangs, or support from Willie, I can only speculate." During the meeting, Brown urged White to meet with Florence Fang to discuss the case, which White would eventually do in February. "Willie seems like a friend in all this," White wrote, "but I am forewarned and often reminded that he's a lot closer to the Fangs than he is to us." (Florence Fang declined to comment for this article.)

Ted Fang bought *The Independent* when he was 24 years old. The local myth is that John Fang bought his son the paper as a birthday gift. "My mother likes to tell that story," says Ted, explaining that he in fact decided to buy it himself because, he says, he saw the neighborhood newspaper as a "way to talk to people." So he set about transforming the paper into a profitable broadsheet with a focus on neighborhood news. When he bought the paper, Fang says, it had a circulation of about 40,000; today it stands at 379,000. But in the process, he transformed his tiny giveaway—and, in turn, himself as its editor and publisher—into a political player in the city.

Fang and his paper—with its front-page columnist, Warren Hinckle—were first recognized as a force to be reckoned with during San Francisco's 1991 mayoral campaign, when it displayed an increasing willingness to turn its pages over to political advocacy.

Hinckle has been an institution in San Francisco political and journalism circles since the 1960s, when he was an editor at the seminal left-wing journal *Ramparts*. But mostly, it seems, he's been an institution in the city's bars. After unsuccessful columnist stints at the *Chronicle* and the *Examiner* (the former employed an editor whose job description included shepherding Hinckle and rounding him up from the bars around deadline time), Hinckle landed at *The Independent* just before the 1991 mayoral race heated up. (Hinckle did not return phone calls seeking comment.)

That election pitted liberal incumbent Art Agnos against Frank

Jordan, a law-and-order former police chief. Political consultant and Fang ally Jack Davis was running Jordan's campaign, and *The Independent* threw its support behind Jordan. Hinckle wrote a series of highly personal front-page columns excoriating Agnos as arrogant and cowardly. Shortly before the election, Fang collected all of Hinckle's columns into an anti-Agnos booklet called *The Agnos Years*, which he distributed to households along with *The Independent*. Jordan won that election, and many credited *The Agnos Years* with his victory.

But of all the San Francisco politicians, District Attorney Terence Hallinan is arguably the most indebted to the Fangs. Hallinan, a former boxer and grandson of a cable-car operator, befriended the Fang family in 1989, when he sought and received John Fang's endorsement in running for the city board of supervisors. After John died, he developed a friendship with Ted, whom he calls a "boy genius." In 1994, when Hallinan was still a supervisor, he supported Proposition J, a citywide ballot initiative conceived by Jack Davis that gave free papers owned by women or minorities preference in bidding for the contract to publish San Francisco's legal notices. Since Florence Fang owns the family business, Proposition J guaranteed that *The Independent* would win the contract year after year. It's now valued at more than \$1 million per year.

When Hallinan ran for district attorney in 1995, with Jack Davis as an informal adviser, Ted Fang repaid the favor. *The Independent* ran a series of news articles attacking Hallinan's opponent, Bill Fazio, with above-the-banner headlines like "D.A. candidate's underworld ties." These articles are almost universally derided as baseless smears against Fazio, who lost the race.

Four years later, when Hallinan ran for re-election, against Fazio once again, he continued to receive *The Independent's* support, and won. He then promptly hired Darrell Salomon, an attorney (and occasional *Independent* legal columnist) who represented the Fangs, to be his deputy. Salomon stayed at the district attorney's office until last August, when he left to become the in-house lawyer for the Fang *Examiner*.

For his part, Ted Fang says he's "proud" of any role his paper may have played in Hallinan's electoral success. And Hallinan, when asked whether *The Independent* did campaign work in the guise of journalism, responds: "Like the *Chronicle* did for Fazio? What the *Chronicle* did to me was way beyond anything *The Independent* did to Fazio," he says. "I'd have traded places with him in a flash of your eye, for sure."

From the start of its negotiations to purchase the *Chronicle*, Hearst understood that the deal would attract scrutiny from the Justice Department's antitrust division. (And in fact, that investigation was coordinated with none other than the San Francisco D.A., Terence Hallinan.) On August 20, 1999, Mayor Brown wrote another letter to Janet Reno, this time expressing concern that the proposed sale could injure San Francisco's "third newspaper."

S.F. Confidential

In late September 1999, a Hearst attorney wrote to the Justice Department's antitrust division and argued that shutting the *Examiner* down would not violate antitrust laws. The letter detailed Hearst's attempt to sell the *Examiner*, reporting that two potential buyers had emerged: the Fang family and a firm that specializes in buying distressed properties. The Fangs, who, according to the letter, initially appraised the value of the *Examiner* at between \$6 million and \$8 million, eventually balked at the notion of paying money to take over a paper in such a weak position. And under political pressure to maintain San Francisco as a two-newspaper town, Hearst considered the other buyer unacceptable—it was likely to shut the paper down and liquidate the assets, inviting potential antitrust problems the company wanted to avoid.

At the same time, *The Independent* was characteristically bombastic in its opposition to the Hearst purchase of the *Chronicle*. The paper launched a series of blistering articles under the banner "The Hearst Chronicles" attacking Hearst for attempting to monopolize the newspaper market in San Francisco. The series included an ongoing cartoon, written by Hinckle, called "Mr. Sharon Stone" that tastelessly lambasted Bronstein and his wife.

Still, by all accounts, Hearst thought it had everything lined up: It had attempted to secure local political support for the deal, it had provided the Justice Department with ample evidence of why the *Examiner* was simply an unviable business, and it had even tried, unsuccessfully, to sell the thing. The *Examiner* ought to be allowed to die in peace.

On October 18, political consultant Jack Davis entered the fray. Through the rumor mill, Tim White had heard that Davis was making veiled threats about preventing the *Chronicle* acquisition. As White put it in an e-mail to his boss, George Irish: "Davis...[an] all-around bright, devious, dangerous strategist, and well-known consigliere to the Fangs, was overheard saying that he wouldn't be surprised if there were at least three lawsuits filed over the proposed acquisition in court of the *Chronicle*....Davis speculated that these suits could tie-up the acquisition for at least a couple of years." Davis admits that he made the comment to a *Chronicle* editor over lunch, but says that he meant it as an honest assessment rather than a threat. Nonetheless, Davis's remark unnerved Hearst.

On December 2, 1999, Ted Fang's lawyer, David Balabanian, called senior vice president and Hearst counsel James Asher. On behalf of his client, Balabanian offered, as Asher explained in a memo that later was admitted into the court record, to "take the *Examiner* off [Hearst's] hands" in exchange for a cash subsidy of \$35 million per year for roughly six years. For their part, "the Fangs would use their extensive political connections to assist [Hearst] in completing [its] purchase of the *Chronicle*," the memo says. A few days later, according to Asher, Balabanian called back to add that "Ted Fang would be a preferred buyer of the *Examiner* from the DOJ's perspective." Hearst rejected the offer. (Balabanian told *Brill's Content*, "That is all Mr. Asher's language and not mine." Asher declined to be interviewed.)

A few weeks later, a roadblock went up that would make Hearst reconsider the offer: The Justice Department informed Hearst that its first sales effort had been inadequate—as one official made clear to Hearst in correspondence, the sale of "Hearst's current position in the Joint Operating Agreement" was the best way to test the *Examiner*'s viability. In other words, the Justice Department wanted Hearst to let someone else siphon off half of both papers' profits, just as Hearst had been doing to the *Chronicle* since 1965.

Hearst executives believed that the Justice Department wasn't going to allow them to shut down the *Examiner*, and political opposition to the *Chronicle* acquisition was growing in San Francisco. "Funny undesired consequences," as Willie Brown had put it to Timothy White, now appeared to be rippling all over Hearst's deal. Something had to give, and in this case, that something turned out to be Hearst.

In January, Hearst offered the *Examiner* up for sale again, this time including physical assets to sweeten the pot. Still, there were no takers. Around the same time, Clinton Reilly—a San Francisco real estate magnate, a former mayoral candidate, and a longtime foe of the Fangs, Willie Brown, and Phil Bronstein—filed suit in federal district court, claiming that Hearst's purchase of the *Chronicle* violated antitrust law, another obstacle for Hearst. All this Sturm und Drang was leading Hearst executives to the decision that they were "better off selling the *Examiner*," as Asher testified in the trial, "even if it required a subsidy, than we were closing it."

Ten days later, Timothy White finally met with Florence Fang, as Willie Brown had hoped. At San Francisco's Villa Taverna, a private club in the financial district, the two were joined for lunch by U.S. senator Dianne Feinstein, the former San Francisco mayor and a friend of the Fangs, who, according to White's testimony, had set up the meeting. According to White's notes, he encouraged Fang to buy the *Examiner*. "I assured her that Hearst very much wanted to sell the *Examiner*," he wrote. "That we were exploring ways to offer a more complete package of assets to Ted." White's notes on the lunch end with Florence Fang "repeating that 'this was a good start.'"

Meanwhile, the Justice Department wasn't budging. Just weeks after the White-Fang lunch, on February 24, Hearst executives met with Justice officials to plead their case once again: Nobody was buying the *Examiner*. The officials were adamant. As Hearst's James Asher testified at the trial (with considerable understatement): "[T]hey really preferred us to find a way to sell the *Examiner* rather than close it."

'Davis...[an] all-around bright, devious, dangerous strategist, and well-known consigliere to the Fangs, was overheard saying that he wouldn't be surprised if there were at least three lawsuits filed over the proposed acquisition of the *Chronicle*,' Tim White wrote.

On March 17, seven months after the *Chronicle* purchase, Hearst caved, announcing that it had sold the *Examiner* to the Fangs. The purchase agreement is extraordinary: The JOA will be dissolved, and the Fang family will transform the *Examiner* into a morning paper. The two newspapers will compete independently, and the Fang *Examiner* will move to a new location. The *Chronicle* will annex the old *Examiner* space to use for its newly enlarged staff. Instead of a share of the JOA (which was to expire in 2005), Hearst agreed to reimburse the Fangs' expenses in operating the *Examiner* for up to \$66 million over three years. If the *Examiner* keeps costs down, the Fang family gets half of the savings, up to \$5 million each year, no strings attached. (Ted Fang says: "I intend to spend as much of Hearst's money as possible.")

Within two weeks of the transaction's announcement, the Department of Justice issued a press release announcing that the sale to the Fangs had "resolved the department's antitrust concerns" over the *Chronicle* purchase, and the department closed its investigation.

Hearst's by-now-epic struggle to buy the *Chronicle*, however, was not over. Clint Reilly's antitrust suit against Hearst commenced soon after the *Examiner* sale, and the Fangs were drawn into the litigation as well. The result was utterly demoralizing for San Francisco journalism.

S.F. Confidential

It started with a bang on May 1: On the first day of testimony, Reilly's lawyer, Joseph Alioto—who happens to be the son of a revered former mayor—called *Examiner* publisher Timothy White to the stand. On that day, White testified, by all accounts freely and without seeming to realize the gravity of his admission, that he had offered Mayor Brown support on the *Examiner's* editorial pages—over which White, as publisher, had final authority—if Brown would support Hearst's acquisition of the *Chronicle*. Under direct examination by Alioto, White testified that at an August 30 lunch with Mayor Brown, he told the mayor that “it was going to be difficult if on the one hand he was beating us up [over the *Chronicle* deal] and...on the opposite side of the fence [we were] championing his initiatives.” Alioto then asked, “[I]f [Brown] went along with the acquisition...then when you folks were writing about him...you wouldn't be as harsh as you otherwise would be?” White responded, “No, that wouldn't affect the journalism side. It would affect the editorial side.” As if it weren't painfully clear enough, Alioto asked, “You were doing a little horse-trading yourself; weren't you?” To which White answered, “I was.”

White's testimony was a public relations disaster for Hearst. Although Hearst's lawyers didn't seem to realize it at the time; according to one source who was in the courtroom, a Hearst lawyer greeted White on his return from the stand with the words, spoken in earnest, “That went well.”

Even more embarrassing was the fact that Phil Bronstein was present at the lunch in question, and that White had dutifully reported the substance of his lunch—horse-trading and all—to his bosses in New York via e-mail the day it happened. The e-mail was sent to Hearst CEO Frank Bennack and Hearst newspaper division chief George Irish, and Alioto introduced it as evidence in the trial. (Irish and Bennack declined to be interviewed for this article.)

Hearst immediately placed White on paid leave, named Irish acting publisher of the *Examiner*, and sponsored an independent review of the *Examiner's* editorial integrity by a retired federal judge. (At press time, the report was pending after nearly six months of investigation.)

“There was no negotiation of press coverage of any kind,” asserts Bronstein, who says the exchange White testified to did take place, but describes it as an offhand remark that was not to be taken seriously. “I didn't find that remark to be particularly bothersome.”

Although Judge Walker approved the *Chronicle* purchase and Reilly lost his antitrust suit against Hearst, the judge's decision includes a scathing indictment of the Fang-*Examiner* deal, which he called “malodorous.” “Hearst has no economic reason or justification for the [*Examiner* sale] except its belief that this transaction was necessary to shake loose political and regulatory approval of the [*Chronicle* purchase],” Walker wrote, attacking the DOJ for insisting with “no legal justification” that Hearst sell its “full interest in the JOA.” He pointedly noted that Dianne Feinstein sits on the Senate Judiciary Committee, which oversees the Justice Department, adding that “these observations lead the court to the uneasy inference that the cronyism that fueled the Fang transaction at the local level also exerted influence over the DOJ investigation.”

The Justice Department, of course, took issue with Judge Walker's ruling. On August 10, two weeks after Walker decided the case, Joel Klein, who ran the department's antitrust division at the time, wrote him a strong letter asserting that “any suggestion that we supported

favorable treatment for [the Fangs] is unfounded” and requesting that Walker “vacate all portions of the opinion that contain any statements about the Department of Justice's motives...[in] the Hearst matter.”

As for why the DOJ seemed to have been more demanding than it had been in dozens of other similar cases, Klein's letter cited “significant statutory restrictions on our ability to disclose” information that may explain its actions, even if the information has been requested by a federal judge. Klein did specifically deny, contrary to Walker's decision, that the DOJ told Hearst it would approve the *Chronicle* sale only if Hearst offered to sell its share of the JOA along with the *Examiner*. (In fact, a DOJ staffer wrote a letter in February stating that selling an interest in the JOA “was analytically the most appropriate marketplace test” of whether the *Examiner* was a failing paper.) Judge Walker responded with an August 14 letter inviting the

Department of Justice to reopen the case in order to reintroduce evidence and correct the record if it so desired. (A DOJ spokeswoman offered no comment when asked whether the Department had any plans to do so.)

Dianne Feinstein has similarly denied the implications of Walker's ruling. Through a spokesman, she told *Brill's Content* she never had any communications with any Justice officials regarding the Hearst investigation.

Mayor Brown simply says: “Judge Walker doesn't know what the hell he's talking about.” But did the mayor stack the deck so the Fangs would get the *Examiner*? “There was a position taken by every politician in San Francisco

that this be a two newspaper town,” he says.

“I'm a big believer in fate,” says Ted Fang, the new owner of one of those newspapers. “Somehow the fate of the *Examiner* and the fate of Ted Fang were destined to intertwine.” As for Walker's allegations of “cronyism,” Fang insists that he never asked Brown or Hallinan for their help in acquiring the *Examiner*.

His latest acquisition has not yet moved into its new home; *The Independent's* offices in Bayview—an antiseptic and sedate section of San Francisco far from downtown—are serving as a staging area until the *Examiner's* new space is ready. The paper's main entrance is flanked on each side by red statues of Chinese lions, and next to one is an enormous trash bin overflowing with copies of *The Independent*.

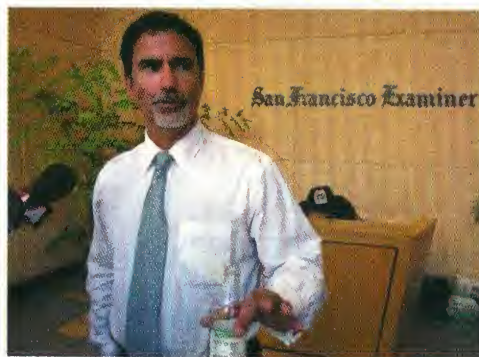
I am here to meet Martha Steffens, whom Ted Fang has named the executive editor of the new *Examiner*. Steffens comes to the job from Binghamton, New York, where she made a living as a consultant to websites and newspapers. Before that, she had been the executive editor of the Binghamton *Press & Sun-Bulletin*, a Gannett paper. Although she agreed to meet me, Steffens clearly would rather be getting ready to launch her new paper than answering questions about *The Independent* and Ted Fang.

“The *Examiner* is going to be a very credible paper,” she says. “I'm responsible for the news operations and Ted's responsible for the editorial pages. So if he wants to focus on some particular issue in the editorial pages, he can do that.” Steffens insists that the *Examiner* and *The Independent* are different papers. But the papers will share an editor and publisher: Ted Fang. *The Independent* will continue to appear three times a week, with Ted Fang at the helm.

Steffens cites “philosophical differences” as the reason she left her last job (and declines to elaborate), so I ask her what her philosophy is.

“Ah, do things fairly. Do things honestly....I'm a big issues-based person....I'm also very innovative. That's what I do. It's what the paper's going to be like, too.”

The innovations, she tells me, will include a color layout and a



‘There was no negotiation of press coverage,’ says *Examiner* executive editor Phil Bronstein.

“fresher looking” design that is “not going to look radically different from today’s *Examiner*.”

Aside from that, all Steffens will tell me about the new *Examiner* is that it will aggressively cover San Francisco for people who live and work in the Bay Area. Like the *Chronicle* and the old *Examiner*, the new *Examiner* will use wire services for national stories. It will have 50 reporters and editors on staff in November and build from there. It will publish in the morning. That’s it. One thing that may give an indication of the character of the new *Examiner* is the fact that vituperative Warren Hinckle will have a twice-a-week column. My conversation with Steffens continues in the same vein until I leave Bayview to check out the new *Examiner* building downtown, at Sixth and Market streets. It’s in what you might call a transitional area. Immediately adjacent to the building is the Crazy Horse Gentlemen’s Club, which features, as one might expect, “Girls, Girls, Girls.”

Of course, the *Examiner* is also in transition, and most journalists I spoke to are withholding judgment until they see the new Fang paper in action. “I wish her luck,” Bronstein says of Martha Steffens, adding quickly, lest he be misunderstood, “and I mean that. She’s a real journalist, which I think is good.” The *Chronicle*’s managing editor, Jerry Roberts, says: “I think the hiring of Martha Steffens is a step in the right direction,” but later adds, “It’s going to be interesting to see how successful you can have a city neighborhood newspaper if it’s intent on being uncritical of the mayor and the district attorney and the entire political establishment.”

Of course, this being San Francisco, the saga is not yet over. On October 10, another antitrust lawsuit—this time against the Fangs and Hearst—was filed; a printing firm based across the San Francisco Bay in Union City was alleging that the Hearst subsidy will allow the Fangs’ printing operation to undercut competitors. At press time, the case had been assigned to Judge Vaughn Walker, and the plaintiffs had requested a preliminary injunction hearing on December 7 to bar Hearst from making any payments to the Fangs.

“Willie Brown thinks this whole thing is hilarious,” says Bronstein. “He got what he wanted, and he stirred up a s---storm in the process.”

When asked how the mayor of a major American city could do in broad daylight what he seems to be alleging, Bronstein gets excited.

The Son Also Rises

[CONTINUED FROM PAGE 111] up to his ears in debt....For 30 years I’ve kept my mouth closed. I’m a very private person. But this is the last straw!” Guccione Sr. fired back, noting that he still supports his ex-wife and that “Tony is 38 years old, he graduated cum laude from Harvard, and he has done nothing since. He will not, or possibly cannot, get a job. He has leached off me his whole life, and never earned a dime of his own. If his mother wants to put up with that, fine. But I will not.”

“He’s a tough Sicilian bastard,” says Guccione Jr. of his father, “and I mean that lovingly. He comes from Sicilian peasant stock. That’s what he is. My grandfather was an Italian peasant. My father is just a *smarter* Italian peasant.” Guccione Jr. seems, at times, to maintain an active, civil relationship with his father, albeit in absentia. “And since we’re all taking a turn at psychoanalysis,” he continues, “I’d say he’s desperately insecure. Believes nobody loves him. He’s hardest on the people he loves the most. And that’s definitely speaking from personal experience. But I think he’s creatively a genius. But a flawed genius. One who seemed to distract people from his accomplishments by his insistence that he was always right.”

“This is the big secret,” he says conspiratorially. “This is what no one can really understand outside San Francisco. How can a group of half a dozen or fewer people have this kind of clout?...They have been very effective in leveraging the myth of their influence to the point where people believe it. So whether or not anybody knows who they are outside of politics and journalism, inside politics and journalism they wield the big stick.”

Even Jack Davis, the Fangs’ self-described “warlord” who views Ted as the underdog in this story, says: “The Fangs have managed to survive in a hostile environment not just by good newspapering, but by creating strategic alliances.” Terence Hallinan, one of those allies, denies that he or anybody else used political muscle to deliver the *Examiner* to Ted Fang. He did, as district attorney, coordinate with the Department of Justice’s antitrust investigation, but he declines to discuss it. “I’ll just say that we fulfilled our role to see that the law was abided with,” he says patiently after repeated questioning about the investigation.

Hallinan is insistent, in his quiet way, that *The Independent* was only doing what the *Chronicle* and the *Examiner* have always done—play favorites with a candidate. But what does this say about the state of journalism in San Francisco? I ask. Doesn’t it bode ill for the future of the Fang *Examiner*?

I would rather that newspapers were objective and didn’t get heavily involved in partisan political positions,’ says San Francisco District Attorney Terence Hallinan. ‘But I don’t know any of them that haven’t done that for the whole history of the Hearst family.’

Hallinan looks at me as if I have asked a stupid question. “I would rather,” he says, a bit wearily, “that newspapers were objective and didn’t get heavily involved in partisan political positions. But I don’t know any of them that haven’t done that for the whole history of the Hearst family.”

To illustrate his point, he tells me a story—about the *Chronicle*, not the *Examiner*, but the point gets across just the same. In 1879, *Chronicle* cofounder Charles de Young was opposed to a mayoral candidate named Isaac Kalloch. So he shot him. Kalloch survived, and won the election. Hallinan pauses before saying, “Then [Kalloch’s] son killed the editor of the *Chronicle*.” He lets out a laugh. “This is San Francisco.” ■

As empathetic as he may be regarding his father’s character, Guccione Jr. is less forthcoming about his father’s magazine. Although he commends *Penthouse*’s “graphic genius” and pioneering sexual frankness, he also says that at some point, it fell out of touch. “I said to my father in 1984, ‘Take the nudes out of *Penthouse*. Just do great pictorials of great-looking models; that’s what people want to see.’ He says, ‘No, you’re crazy.’ I said, ‘No, think about it: *Sports Illustrated* outsells both *Penthouse* and *Playboy* with its swimsuit issue. That’s what guys want.’ Of course, he didn’t believe me. It’s hard to let go...when you’re selling millions of copies a month by a formula, it’s hard to say, ‘You know, maybe the kid’s right. Maybe we should just dump what works and take a flyer on this *Sports Illustrated* format.’ Well, you know what? I was probably not right in the macro, but I was right ten years later.”

When asked if *Penthouse* is an important magazine, he pauses. “At its worst, it was offensive but it had merit.”

Guccione Jr.’s friend Jack Thompson puts it less delicately. “He’s very explicit in disapproving of what his father does for a living,” says Thompson, a conservative attorney who assisted in the fight against the rap group The 2 Live Crew for obscenity and warmed to Guccione Jr. when they debated each other on college campuses. “He doesn’t like his